Mergers and Acquisitions - A Major Prospect for Business Sustainability

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Abstract

Mergers and Acquisitions have emerged as a major force for developing financial and economic environment due to increased market competition both in national and international market, excessive interdependence of companies for different products and services etc. The entire business world is looking forward towards sustainable growth and development. Sustainability issues are gaining ground in terms of business transactions due to the combined efforts of the merged business undertakings. The primary objective for this research paper is to evaluate the impact of mergers and acquisition of the companies sector wise and to identify the factors affecting mergers and acquisition of companies in current scenario. For this purpose, researcher has analyzed the mergers and acquisitions in five different sectors by allowing for both pre and post business position of the amalgamated companies. Records are basically collected from secondary sources and compiled for an effective presentation.

Keywords: Mergers and Acquisition, Sustainability, Earnings per Share, Price Earnings Ratio, Return on Asset, Return on Equity

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I. INTRODUCTION

The present era of globalised economy, demands innovative ways for a business to sustain itself in the increasingly competitive market. Mergers and Acquisitions is a common strategy for business sustainability. One of the foremost prominent highlights of mergers is that they come in waves that are correlated with increment in share prices and prices/earnings ratios. Mergers and Acquisitions have become the major drive in shifting tides in global economic scenario.

The term Mergers and Acquisitions has often been used interchangeably. Mergers and Acquisitions are characterised as combination of two or more companies. The point of combining two or more businesses is to undertake and gain synergy. Differentiating the terms, Mergers is the consolidation of two companies to create one new company. Such kind of transaction generally happens between two companies that are of identical size and that recognizes the interest the other provides in terms of

increasing deals, productivity, capabilities and efficiencies. Merger is often reasonably friendly and agreed to mutually, where the companies involved become equal partners in the new merged venture.

II. REVIEW OF LITERATURE

- **M. Yadagiri and M. Vijay Kumar (2015)**, in their paper 'Sector wise analysis of mergers and acquisitions in India', explains about trends of mergers and acquisitions sector wise specifically focusing on the nonfinancial and financial sectors in the India. The result of the study depicts that mergers and acquisitions are more attracted in nonfinancial sector.
- **Mani Arora and Mr. Anil Kumar(2012)**, in their paper makes the detailed analysis of mergers and acquisitions and depicts out the main issues related with pre and post merging circumstances having special focus on the human aspects.
- **Harpreet Singh Bedi (2010)**, in her paper 'Merger and Acquisition in India: An analytical Study', speaks of the presence of trends and progress of M&As in Indian corporation and analyses the year-wise variance in number and amount of M&A deals.
- **Bijay Gupta and Dr. Parimalendu Banerjee (2017)**, in their paper 'Impact of Merger and Acquisition on Financial Performance studies effect of M &As upon the profitability and liquidity position and the researcher finds out that the acquirer company's financial position has not improved after merger.
- **Amish Bharatkumar Soni (2016)**, in his paper 'Merger and Acquisition in India and its Impact on Shareholders Wealth', makes an analysis as well as the short term effect of the deal. It has been found that the trend exhibits an upward movement of number of M&A deals in India and investors while making an investment shall keep in mind the commercial arrangement resolution of the merged company
- **Priya Bhalla (2014)**, in her paper, 'A sectoral analysis, focused on the differential significance of sectors in M & As and the paper travel around the role played by India in the increasing number of mergers and acquisition activity.

III. OBJECTIVES OF THE STUDY

- To assess the result of merger and acquisitions of the companies on their business.
- To classify the factors affecting mergers and acquisitions of the companies in the current scenario.

1. SCOPE OF THE STUDY

The study also discusses the various factors affecting M & As in current scenario. The research paper is based on facts available for the selected companies through authentic sources and websites like Annual Reports of companies, NASDAQ and money control.

2. RESEARCH METHODOLOGY

- a. Type of research:** - The present study is a comparative study of the economic position of the companies before and after the mergers and acquisition. It is totally based on secondary information of the financial statements of the company. The study is therefore descriptive in nature.
- b. Sample Size:** - Although the study is secondary in nature, for analyzing the impact a sample size of 5 industries in five different sectors have been taken. The researchers have selected five companies that underwent M&A during the period 2008-2017 as mentioned.

Table 1: Details of Acquiring and Acquired Company

ACQUIRING COMPANY	ACQUIRED COMPANY	TARGET COUNTRY	YEAR OF M&A DEAL
Amazon	Whole Foods	US	2017
TATA Motors	Jaguar and land rover (JLR)	US	2008
Bharti Airtel	Telenor India	India	2017
Dr.Reddy's Pharm-ceuticals	Imperial Credit Pvt. Ltd.	India	2017
Kotak Mahindra Bank	Ing Vysya Bank	India	2015

c. Type of Data: Secondary data has been used to conduct the study

d. Tools Used: The pre and post financial position of the business entity after M&A is done using Ratio Analysis techniques like P/E ratio.

- **Return on Equity:** Return on Equity is the net income returned expressed as a proportion of shareholder's equity. It measures the income earned by the company by utilizing shareholders investment.
- **Return on Asset:** Return on asset shows how much revenue a company generates by utilizing its asset.

e. Period of the study: The study undertaken has considered the influence of M & As and undertaken by firms on their financial position, focusing on M & As in five different sectors from the year 2008-2017

IV. MAJOR FINDINGS

Mergers and acquisitions (M & A) activity remains robust worldwide. In the year 2016, around 26000 completed deals of M&A happened throughout the world. The aggregate deal value totalled about USD 2.5 trillion. Corporate India's M&A deal volume touched a seven year high in 2017 with 1022 transactions having value of USD 46.8 billion. The trend for this year looks promising as well. A fivefold increase in the deal value was witnessed in 2016 in telecom sector which had the highest deal value of USD 14.7 billion in last 10 years. The trend is expected to remain the same in the upcoming years as the government introduces comprehensive reform plan for creating conducive investment climate. There are numerous reasons inducing M & A like market penetration, innovations in technology and digitalization. In our research paper, researchers have taken M & A in five different sectors mainly food industry, telecom sector, banking sector, pharmaceutical sector, automobile sector and shoed the impact of M & A.

Food Industry- Amazon's Acquisition of Whole Foods

This led Whole Foods to operate as a subsidiary unit of Amazon. This resulted acquisition of the American chain super markets by the ecommerce company. Whole foods had been facing a decline in revenue growth and profits because of cut-throat competition and Amazon is considered to be topmost retailer in context of market capitalisation. The merger gave Amazon a bigger physical retail foot print and helped Whole Foods to convert its losses into profits. The acquisition combined two major brands which follow a customer-oriented approach. By being a partner with Whole foods, Amazon can expand its channels of business and enhances the customer experience. The impact of Acquisition has been favourable for Amazon.

Table 2: EPS and P/E ratio during Pre-Merger and Post-Merger of Amazon

Particulars/ Year	2017(Pre-merger)	2018(Post-merger)
EPS	Rs 0.40	Rs 5.07
P/E Ratio	181.96 times	214.08 times
ROE	11%	12.91%
ROA	12.79%	5.28%

(Source: NASDAQ, Y-charts)

Inference: P/E Ratio of the entity is increasing which suggests that the investors are anticipating higher returns growth in future. Likewise, ROE of the company has also improved indicating that the company is using its investors fund effectively to generate profits.

- a. **Automobile Industry- TATA Motors Acquired to Jaguar Landover Limited (JLR):** JLR was acquired by TATA Motors from Ford Motors Company for a deal value of \$2.3 billion. The acquisition made TATA motors to gain a global footprint.

Table 3: EPS and P/E ratio during Pre-Merger and Post-Merger of Tata Motors

Particulars/Year	2008(Pre-merger)	2009(Post-merger)
EPS	Rs.56.23	Rs.-48.74
P/E Ratio	16.11 times	9.21 times
ROE	24.99%	-48.23%
ROA	6.03%	-3.37%

(Source: Money control, Macro trends)

Inference: The EPS, P/E Ratio, ROE and ROA have reduced. This implies that the company face losses immediately after merger because of high interest payment on the bridge loan taken to finance the deal. Even the share prices the company started falling after merger. Although the company faced short term losses, it got long term benefits.

- b. **Telecom Industry: Acquisition of Telenor India by Airtel:** On February 2017 Telecom major Bharti Airtel acquired Indian arm of Telenor communications. The deal increased Airtel's customer base in India to 330 millions. The acquisition has helped Airtel to have the market leadership, stabilizing the network portfolio in major markets and add to shareholders value. This deal will enhance Airtel's already strong spectrum base. Bharti Airtel's acquisition of Telenor has given it an advantage over its competitors especially Reliance Jio.

Table 4: EPS and P/E ratio during Pre-Merger and Post-Merger of Bharti Airtel

Particulars/Years	2017(Pre-Merger)	2018(Post Merger)
EPS	Rs.9.51	Rs.2.75
P/E Ratio	32.3 times	82.2 times
ROA	1.62%	0.43%
ROE	5.63%	1.58%

(Source: Money control, Macro trends)

Inference: The EPS, ROA and ROE have reduced since it takes time to recoup the financial position after the acquisition.

- c. **Banking Sector: Kotak Mahindra Achievement of Ing Vysya Bank:** Kotak Mahindra Bank declared its achievement of Ing Vysya Bank in November 2014 bringing Kotak Mahindra Bank among the top 4 largest private banks of the country. After the acquisition, the new entity will have an extensive network of 1214 branches throughout the country.

Table 5: EPS and P/E ratio during Pre-Merger and Post-Merger of Kotak Mahindra

Particulars/Years	2015(Pre-Merger)	2016(Post Merger)
EPS	Rs.39.49	Rs.18.91
P/E Ratio	27.5 times	36.00 times
ROE	10.36%	13.75%
ROA	1.43%	2.04%

(Source: Money control, Macro trends)

Inference: The ROA and ROE has been utilised properly which indicates that the assets and the shareholders fund has been utilised properly to generate profit. The P/E Ratio has increased which implies that the investors are expecting higher returns.

- d. **Pharmaceutical Sector: Acquisition of Imperial Credit Private Limited. by Dr. Reddy's Laboratories:** Dr Reddy's Laboratories Ltd(Headquartered at Hyderabad) acquired non-banking financial company Imperial Credit Pvt. Ltd on March 2017. While it is intriguing that a drug maker is buying an NBFC, the company said this was not a foray into the NBFC business and has more to do with operational flexibility. The deal comes at a time when an easing of foreign investment rules for NBFC's earlier this year and high growth at these lenders compared with banks have attracted several investors to the sector.

Table 6: EPS and P/E ratio during Pre-Merger and Post-Merger of Dr. Reddy's Laboratories

Particulars/Years	2017(Pre-Merger)	2018(Post Merger)
EPS	Rs.77.53	Rs.57.08
P/E	46.61 times	35.87 times
ROE	10.53%	7.53%
ROA	5.92%	4.19%

(Source: Money control, Macro trends)

Inference: The EPS and P/E Ratio has reduced which indicates that the profits have been reduced and the prices of share are undervalued, post-merger respectively. The ROA and ROE has reduced which implies that the assets and investors funds is not utilised efficiently, post-merger.

General factors affecting Mergers and Acquisitions

So it requires conducive business climate provoked by key success factors. The various factors that have emotional impact mergers and acquisitions are illustrated in the following table.

Table 7: General factors affecting Mergers and Acquisitions

1. Growth	8. To Follow Clients
2. Technology	9. Diversification
3. Product Advantage	10. Capacity Augmentation
4. Government Policy	11. Achieving Competitive Edge
5. Rate of Interest	12. Replacing Leadership
6. Political and Economic Stability	13. Surviving Tough Times
7. Differential Labour costs and Productivity	14. Increase the Brand Value

However, in case of mergers of the companies in the selected sample, the following factors played a major role.

Table 8: Analysis of Various Key factors Dominant in Mergers & Acquisitions

S.No.	M&A	Factors
1.	Amazon Acquiring Whole Foods	-Brand Equity: Whole foods have a strong private label business with its 365 brands. Amazon is now days becoming more vertical integrated and more interested in acquiring private brands as private brand product denotes differentiation. -Market Expansion: Amazon wanted to enter into retail business.
2.	TATA Motor Acquiring JLR	-Growth and Expansion: This acquisition helped TATA Motors to enter the global automobile industry. -Cost and Revenue Synergies: Because of the acquisition TATA got various cost and revenue benefits.
3.	Bharti Airtel Acquiring Telenor India	-Market Extensions: The Acquisition provided Airtel with additional 54 million customers. -Technological Factor: The technological Advantage that the company gets is Telenor India's 4G airwaves
4.	Kotak Mahindra Acquiring Ing Vysya Bank:	-Growth: Acquisition gave Kotak right to use to Ing Vysya's expanded network in south India and to create a diversified customer base.
5	Dr. Reddy Laboratories Ltd Acquiring Imperial Credit Private Limited	-Diversification: This acquisition led to diversification from its product line that is medicine to acquire a non banking financial institution.

V. CONCLUSION

Various companies combine for generating synergies, improving the profit efficiency, enhancing competitiveness and exploring new markets. The impartial of the present study is to analyze the effect of M & As on the financial presentation of the acquiring after M&A in during the period 2008-2017. It is clearly evident that after merger the profitability of some companies out of the selected sample declined and deteriorated and the profitability position indicators have not significantly improved. In case of Amazon the EPS, ROA, ROE and P/E, all the ratios have improved. But in case of the other four companies (i.e., Airtel, Kotak Mahindra bank, Dr. Reddy's Laboratories, Tata Motors) the EPS, ROA, ROE and P/E ratios of the acquirer company has declined. Overall, the financial position is not significantly improved. The results suggest that financial position indicators of most of the companies significantly deteriorated after M&A of the business. These businesses although are facing short term losses but they have combined for getting long term benefits. The study also attempted to explore the

significant factors affecting M & As activity in the current scenario. These factors are to be kept in consideration before entering into M&A deal.

VI. RECOMMENDATIONS

- 1) Recommendation given to the future researcher is to consider a larger sample size with wider time span which will lead to better outcome as effects for a longer term can be seen.
- 2) The researchers can make a comparison of M & A in different countries.
- 3) The researchers can further make an analysis of changes in share prices after mergers & acquisitions.
- 4) They can analyse the impact of cross broader M&A on the country's GDP.
- 5) They can also assess the effect of M & A on the retail market.
- 6) The researchers can use other variables like Gross Profit Margin, Financial Leverage and Return on Capital Employed and Dividend Pay-out ratio to have a better understanding of financial position.

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